

.....  
(Original Signature of Member)

118TH CONGRESS  
1ST SESSION

**H. R.** \_\_\_\_\_

To amend the Internal Revenue Code of 1986 to establish special rules  
for capital gains invested in rural opportunity zones.

\_\_\_\_\_  
IN THE HOUSE OF REPRESENTATIVES

Mr. FERGUSON introduced the following bill; which was referred to the  
Committee on \_\_\_\_\_

\_\_\_\_\_  
**A BILL**

To amend the Internal Revenue Code of 1986 to establish  
special rules for capital gains invested in rural oppor-  
tunity zones.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “Rural Opportunity  
5       Zone and Investment Act”.

1 **SEC. 2. ESTABLISHMENT OF SPECIAL RULES FOR CAPITAL**  
2 **GAINS INVESTED IN RURAL OPPORTUNITY**  
3 **ZONES.**

4 (a) IN GENERAL.—Subchapter Z of chapter 1 of the  
5 Internal Revenue Code of 1986 is amended by adding at  
6 the end the following new section:

7 **“SEC. 1400Z-3. SPECIAL RULES FOR CAPITAL GAINS IN-**  
8 **VESTED IN RURAL OPPORTUNITY ZONES.**

9 “(a) IN GENERAL.—

10 “(1) TREATMENT OF GAINS.—In the case of  
11 capital gain from the sale to, or exchange with, an  
12 unrelated person of any property held by the tax-  
13 payer, at the election of the taxpayer—

14 “(A) gross income for the taxable year  
15 shall not include so much of such gain as does  
16 not exceed the aggregate amount invested by  
17 the taxpayer in a qualified rural opportunity  
18 fund during the 180-day period beginning on  
19 the date of such sale or exchange,

20 “(B) the amount of gain excluded by sub-  
21 paragraph (A) shall be included in gross income  
22 as provided by subsection (b), and

23 “(C) subsection (c) shall apply.

24 “(2) ELECTION.—No election may be made  
25 under paragraph (1)—

1           “(A) with respect to a sale or exchange if  
2           an election previously made with respect to such  
3           sale or exchange is in effect, or

4           “(B) with respect to any sale or exchange  
5           after December 31, 2032.

6           “(b) DEFERRAL OF GAIN INVESTED IN QUALIFIED  
7           RURAL OPPORTUNITY ZONE PROPERTY.—

8           “(1) YEAR OF INCLUSION.—Gain to which sub-  
9           section (a)(1)(B) applies shall be included in income  
10          in the taxable year which includes the earlier of—

11          “(A) the date on which such investment is  
12          sold or exchanged, or

13          “(B) December 31, 2032.

14          “(2) AMOUNT INCLUDIBLE.—

15          “(A) IN GENERAL.—The amount of gain  
16          included in gross income under subsection  
17          (a)(1)(A) shall be the excess of—

18          “(i) the lesser of the amount of gain  
19          excluded under paragraph (1) or the fair  
20          market value of the investment as deter-  
21          mined as of the date described in para-  
22          graph (1), over

23          “(ii) the taxpayer’s basis in the in-  
24          vestment.

1                   “(B) DETERMINATION OF BASIS QUALI-  
2                   FIED RURAL OPPORTUNITY ZONE PROPERTY.—

3                   “(i) IN GENERAL.—Except as other-  
4                   wise provided in this clause or subsection  
5                   (c), the taxpayer’s basis in the investment  
6                   shall be zero.

7                   “(ii) INCREASE FOR GAIN RECOG-  
8                   NIZED UNDER SUBSECTION (A)(1)(B).—The  
9                   basis in the investment shall be increased  
10                  by the amount of gain recognized by rea-  
11                  son of subsection (a)(1)(B) with respect to  
12                  such property.

13                  “(iii) INVESTMENTS HELD FOR 5  
14                  YEARS.—In the case of any investment  
15                  held for at least 5 years, the basis of such  
16                  investment shall be increased by an  
17                  amount equal to 10 percent of the amount  
18                  of gain deferred by reason of subsection  
19                  (a)(1)(A).

20                  “(iv) INVESTMENTS HELD FOR 7  
21                  YEARS.—In the case of any investment  
22                  held by the taxpayer for at least 7 years,  
23                  in addition to any adjustment made under  
24                  clause (iii), the basis of such property shall  
25                  be increased by an amount equal to 5 per-

1 cent of the amount of gain deferred by rea-  
2 son of subsection (a)(1)(A).

3 “(c) SPECIAL RULE FOR INVESTMENTS HELD FOR  
4 AT LEAST 10 YEARS.—In the case of any investment held  
5 by the taxpayer for at least 10 years and with respect to  
6 which the taxpayer makes an election under this sub-  
7 section, the basis of such property shall be equal to the  
8 fair market value of such investment on the date that the  
9 investment is sold or exchanged.

10 “(d) QUALIFIED RURAL OPPORTUNITY FUND.—For  
11 purposes of this section—

12 “(1) IN GENERAL.—The term ‘qualified rural  
13 opportunity fund’ means any investment vehicle  
14 which is organized as a corporation or a partnership  
15 for the purpose of investing in qualified rural oppor-  
16 tunity zone property (other than another qualified  
17 rural opportunity fund) that holds at least 90 per-  
18 cent of its assets in qualified rural opportunity zone  
19 property, determined by the average of the percent-  
20 age of qualified rural opportunity zone property held  
21 in the fund as measured—

22 “(A) on the last day of the first 6-month  
23 period of the taxable year of the fund, and

24 “(B) on the last day of the taxable year of  
25 the fund.

1           “(2) QUALIFIED RURAL OPPORTUNITY ZONE  
2 PROPERTY.—

3           “(A) IN GENERAL.—The term ‘qualified  
4 rural opportunity zone property’ means prop-  
5 erty which is—

6           “(i) qualified rural opportunity zone  
7 stock,

8           “(ii) qualified rural opportunity zone  
9 partnership interest, or

10           “(iii) qualified rural opportunity zone  
11 business property.

12           “(B) QUALIFIED RURAL OPPORTUNITY  
13 ZONE STOCK.—

14           “(i) IN GENERAL.—Except as pro-  
15 vided in clause (ii), the term ‘qualified  
16 rural opportunity zone stock’ means any  
17 stock in a domestic corporation if—

18           “(I) such stock is acquired by the  
19 qualified rural opportunity fund after  
20 December 31, 2023, at its original  
21 issue (directly or through an under-  
22 writer) from the corporation solely in  
23 exchange for cash,

24           “(II) as of the time such stock  
25 was issued, such corporation was a

1 qualified rural opportunity zone busi-  
2 ness (or, in the case of a new corpora-  
3 tion, such corporation was being orga-  
4 nized for purposes of being a qualified  
5 rural opportunity zone business), and  
6 “(III) during substantially all of  
7 the qualified rural opportunity fund’s  
8 holding period for such stock, such  
9 corporation qualified as a qualified  
10 rural opportunity zone business.

11 “(ii) REDEMPTIONS.—A rule similar  
12 to the rule of section 1202(c)(3) shall  
13 apply for purposes of this paragraph.

14 “(C) QUALIFIED RURAL OPPORTUNITY  
15 ZONE PARTNERSHIP INTEREST.—The term  
16 ‘qualified rural opportunity zone partnership in-  
17 terest’ means any capital or profits interest in  
18 a domestic partnership if—

19 “(i) such interest is acquired by the  
20 qualified rural opportunity fund after De-  
21 cember 31, 2023, from the partnership  
22 solely in exchange for cash,

23 “(ii) as of the time such interest was  
24 acquired, such partnership was a qualified  
25 rural opportunity zone business (or, in the

1 case of a new partnership, such partner-  
2 ship was being organized for purposes of  
3 being a qualified rural opportunity zone  
4 business), and

5 “(iii) during substantially all of the  
6 qualified rural opportunity fund’s holding  
7 period for such interest, such partnership  
8 qualified as a qualified rural opportunity  
9 zone business.

10 “(D) QUALIFIED RURAL OPPORTUNITY  
11 ZONE BUSINESS PROPERTY.—

12 “(i) IN GENERAL.—The term ‘quali-  
13 fied rural opportunity zone business prop-  
14 erty’ means tangible property used in a  
15 trade or business of the qualified rural op-  
16 portunity fund if—

17 “(I) such property was acquired  
18 by the qualified rural opportunity  
19 fund by purchase (as defined in sec-  
20 tion 179(d)(2)) after December 31,  
21 2023,

22 “(II) the original use of such  
23 property in the qualified rural oppor-  
24 tunity zone commences with the quali-  
25 fied rural opportunity fund or the

1 qualified rural opportunity fund sub-  
2 stantially improves the property, and

3 “(III) during substantially all of  
4 the qualified rural opportunity fund’s  
5 holding period for such property, sub-  
6 stantially all of the use of such prop-  
7 erty was in a qualified rural oppor-  
8 tunity zone.

9 “(ii) SUBSTANTIAL IMPROVEMENT.—  
10 For purposes of subparagraph (A)(ii),  
11 property shall be treated as substantially  
12 improved by the qualified rural opportunity  
13 fund only if, during any 30-month period  
14 beginning after the date of acquisition of  
15 such property, additions to basis with re-  
16 spect to such property in the hands of the  
17 qualified rural opportunity fund exceed an  
18 amount equal to the adjusted basis of such  
19 property at the beginning of such 30-  
20 month period in the hands of the qualified  
21 rural opportunity fund.

22 “(iii) RELATED PARTY.—For pur-  
23 poses of subparagraph (A)(i), the related  
24 person rule of section 179(d)(2) shall be  
25 applied pursuant to subsection (e)(2) in

1           lieu of the application of such rule in sec-  
2           tion 179(d)(2)(A).

3           “(3) QUALIFIED RURAL OPPORTUNITY ZONE  
4 BUSINESS.—

5           “(A) IN GENERAL.—The term ‘qualified  
6 rural opportunity zone business’ means a trade  
7 or business—

8           “(i) in which substantially all of the  
9 tangible property owned or leased by the  
10 taxpayer is qualified rural opportunity zone  
11 business property (determined by sub-  
12 stituting ‘qualified rural opportunity zone  
13 business’ for ‘qualified rural opportunity  
14 fund’ each place it appears in paragraph  
15 (2)(D)),

16           “(ii) which satisfies the requirements  
17 of paragraphs (2), (4), and (8) of section  
18 1397C(b), and

19           “(iii) which is not described in section  
20 144(e)(6)(B).

21           “(B) SPECIAL RULE.—For purposes of  
22 subparagraph (A), tangible property that ceases  
23 to be a qualified rural opportunity zone busi-  
24 ness property shall continue to be treated as a

1 qualified rural opportunity zone business prop-  
2 erty for the lesser of—

3 “(i) 5 years after the date on which  
4 such tangible property ceases to be so  
5 qualified, or

6 “(ii) the date on which such tangible  
7 property is no longer held by the qualified  
8 rural opportunity zone business.

9 “(4) QUALIFIED RURAL OPPORTUNITY ZONE.—

10 “(A) IN GENERAL.—The term ‘qualified  
11 rural opportunity zone’ means any population  
12 census tract which—

13 “(i) is located in a rural county, and

14 “(ii) is in persistent poverty (as deter-  
15 mined by the Bureau of the Census as of  
16 the date of the enactment of this Act).

17 “(B) RURAL COUNTY.—The term ‘rural  
18 county’ means any county if more than 50 per-  
19 cent of the census blocks which comprise such  
20 county are rural blocks (as determined by the  
21 Bureau of the Census as of the date of the en-  
22 actment of this Act). A rule similar to section  
23 143(k)(2)(D) shall apply for purposes of the  
24 preceding sentence.

25 “(e) APPLICABLE RULES.—

1           “(1) TREATMENT OF INVESTMENTS WITH  
2 MIXED FUNDS.—In the case of any investment in a  
3 qualified rural opportunity fund only a portion of  
4 which consists of investments of gain to which an  
5 election under subsection (a) is in effect—

6           “(A) such investment shall be treated as 2  
7 separate investments, consisting of—

8           “(i) one investment that only includes  
9 amounts to which the election under sub-  
10 section (a) applies, and

11           “(ii) a separate investment consisting  
12 of other amounts, and

13           “(B) subsections (a), (b), and (c) shall  
14 only apply to the investment described in sub-  
15 paragraph (A)(i).

16           “(2) RELATED PERSONS.—For purposes of this  
17 section, persons are related to each other if such  
18 persons are described in section 267(b) or 707(b)(1),  
19 determined by substituting ‘20 percent’ for ‘50 per-  
20 cent’ each place it occurs in such sections.

21           “(3) DECEDENTS.—In the case of a decedent,  
22 amounts recognized under this section shall, if not  
23 properly includible in the gross income of the dece-  
24 dent, be includible in gross income as provided by  
25 section 691.

1           “(4) REGULATIONS.—The Secretary shall pre-  
2       scribe such regulations as may be necessary or ap-  
3       propriate to carry out the purposes of this section,  
4       including—

5           “(A) rules for the certification of qualified  
6       rural opportunity funds for the purposes of this  
7       section,

8           “(B) rules to ensure a qualified rural op-  
9       portunity fund has a reasonable period of time  
10      to reinvest the return of capital from invest-  
11      ments in qualified rural opportunity zone stock  
12      and qualified rural opportunity zone partner-  
13      ship interests, and to reinvest proceeds received  
14      from the sale or disposition of qualified rural  
15      opportunity zone property, and

16          “(C) rules to prevent abuse.

17      “(f) FAILURE OF QUALIFIED RURAL OPPORTUNITY  
18      FUND TO MAINTAIN INVESTMENT STANDARD.—

19          “(1) IN GENERAL.—If a qualified rural oppor-  
20      tunity fund fails to meet the 90-percent requirement  
21      of subsection (d)(1), the qualified rural opportunity  
22      fund shall pay a penalty for each month it fails to  
23      meet the requirement in an amount equal to the  
24      product of—

25          “(A) the excess of—

1                   “(i) the amount equal to 90 percent of  
2                   its aggregate assets, over

3                   “(ii) the aggregate amount of quali-  
4                   fied rural opportunity zone property held  
5                   by the fund, multiplied by

6                   “(B) the underpayment rate established  
7                   under section 6621(a)(2) for such month.

8                   “(2) SPECIAL RULE FOR PARTNERSHIPS.—In  
9                   the case that the qualified rural opportunity fund is  
10                  a partnership, the penalty imposed by paragraph (1)  
11                  shall be taken into account proportionately as part  
12                  of the distributive share of each partner of the part-  
13                  nership.

14                  “(3) REASONABLE CAUSE EXCEPTION.—No  
15                  penalty shall be imposed under this subsection with  
16                  respect to any failure if it is shown that such failure  
17                  is due to reasonable cause.”.

18                  (b) CLERICAL AMENDMENT.—The table of sections  
19                  for subchapter Z of chapter 1 of such Code is amended  
20                  by adding at the end the following new item:

                  “Sec. 1400Z–3. Special rules for capital gains invested in rural opportunity  
                  zones.”.

21                  (c) EFFECTIVE DATE.—The amendments made by  
22                  this section shall apply to amounts invested after the date  
23                  of the enactment of this section.